January 2013 Federal Update

On January 3, 2013, the 113th United States House of Representatives opened the session by re-electing Representative John Boehner (R-OH) as House speaker. The Republicans remain in control of the House with 234 Members, Democrats make up 199 Members and there are 2 vacancies. There are 84 freshmen in the 113th Congress, 35 Republicans (32 men, 3 women) and 47 Democrats (33 men, 14 women). Fourteen of those freshmen represent districts in California: Ami Bera (D), Julia Brownley (D), Tony Cardenas (D), Jared Huffman (D), Alan Lowenthal (D), Gloria McCloud (D), Scott Peters (D), Raul Ruiz (D), Eric Swalwell (D), Mark Takano (D), Juan Vargas (D), Paul Cook (R), Doug La Malfa (R), and David Valadao (R).

Vice President Joe Biden swore in one-third of the 113th United States Senators on January 3, 2013. Every two years one-third of the Senate is elected or reelected, which is why only one-third of the Senate was sworn in. Unlike the House of Representatives, where all members face election every two years, the Senate does not have to reorganize itself following each election, but instead adopts an organizing resolution to determine committee ratios, committee membership, and to establish agreements between the parties on the operation of the Senate. Senate Majority Leader Harry Reid (D-NV) announced the Senate will recess, instead of adjourn, until January 22 in order to remain in the first legislative day of the 113th Congress to allow debate on rules reforms. The objective of rules reform would be to end filibuster abuse by restoring debate to the chamber.

On January 2, 2013 President Obama signed into law H.R. 8, the American Taxpayer Relief Act of 2012, in order to avert the “fiscal cliff.” In an 11th hour deal struck by the House and Senate, this legislation protects 98 percent of Americans and 97 percent of small business owners from a middle class tax hike. In addition to the prevention of tax increases, H.R. 8 also renewed or made permanent all of the expiring higher education tax credits. These credits include:

- Extending the American Opportunity Tax Credit through the end of 2017. The credit broadens the permanent Hope Scholarship Credit by helping defray undergraduate college education expenses by allowing borrowers to deduct up to $2,500. This credit is now available for four years, rather than two years which was the previous amount of time the credit could be claimed.

- Extending the Tuition and Fees Deduction through 2013. Originally set to expire in 2011, this allows taxpayers to claim up to $4,000 in tuition expenses if the tax payer earns less than $80,000 filing as an individual and $160,000 filing jointly.
• Permanently extending the expanded Coverdell Education Savings Accounts. Families can now contribute $2,000 (up from $500) each year to these tax-free, savings accounts that give parents a way to save for their children’s college and other education expenses while receiving a tax break.

• Permanently repealing a five-year limit for deducting up to $2,500 via the Student Loan Interest Deduction. This means that students and families can claim student loan interest on their tax forms beyond 60 months for taxpayers earning $70,000 filing individually, and taxpayers earning $160,000 if filing jointly.

• Permanently extending the Employer-Provided Education Assistance benefits. This benefit allows an employee to exclude from income up to $5,250 per year in educational assistance at the undergraduate and graduate level regardless of whether the education is job-related.

Fiscal Cliff - Spending
Although the 112th Congress and the Administration were able to come to a deal concerning the expiring tax provisions, they did not address the debt ceiling, sequester, or federal government spending.

• Debt ceiling – Because the federal government spends more money than it brings in, it makes up the difference by borrowing money which in turn increases the government’s debt. On March 27 the debt ceiling will be reached and lawmakers will have to decide how much to raise the debt ceiling to ensure the federal government meets its spending obligations. Failure to raise the debt limit will result in a United States default and will affect financial markets worldwide.

• Sequestration – These automatic, across-the-board spending cuts were set to take place on January 1, but have been postponed until March 1. This two-month postponement will give Congress more time to devise an alternative. If an agreement is not reached, $85 billion in spending reductions will occur which would be evenly split between military and domestic programs. The Pell Grant Program would be exempt under sequestration, but nondefense discretionary spending, which most higher education programs are included in will be cut by $42.67 billion (e.g. federal funding for Basic State Grants under the Carl D. Perkins Career and Technical Education Act would be cut by more than $100 million in Fiscal Year 2013).

• Government spending – On March 27 the continuing budget resolution currently in effect to allow for federal spending will expire the federal government’s spending authority. If Congress does not approve a new budget by the deadline, the government will partially shut down.
Student Loans - Pay As You Earn
As of Dec. 21, 2012, the United States Department of Education implemented the “Pay As You Earn” plan. This plan will lower the amount that a student loan borrower pays per month in the income-based repayment program from 15 percent of discretionary income to 10 percent, and forgives loans after 20 years rather than 25 years. To qualify for this plan, the borrower must have a partial financial hardship. A partial financial hardship is considered if the monthly amount the borrower would be required to pay on his or her eligible federal student loans under a 10-year Standard Repayment Plan is higher than the monthly amount he or she would be required to repay under “Pay As You Earn.” Also, in order to qualify, her or she must be a new borrower as of October 1, 2007, and must have received a disbursement of a Direct Loan on or after October 1, 2011. The Pay As You Earn Repayment Plan helps keep the borrower’s monthly student loan payments affordable, and usually has the lowest monthly payment amount of the repayment plans that are based on the person’s income.

DoD Releases Revised Tuition Assistance Memo
On December 6, the Department of Defense (DoD) released the long-awaited memorandum of understanding (MOU) which colleges and universities must sign in order to participate in DoD’s Tuition Assistance program. This program serves military members taking courses at California community colleges. Effective March 1, 2013, to be eligible to participate in the DoD Tuition Assistance Program, institutions must have a signed DoD MOU and be on the ‘Participating Institutions’ list, which is posted on www.dodmou.com. After March 1, an institution will not be able to enroll service members under the TA program until it has signed the MOU.